

Independent Rates Oversight Committee - IROC

May 12, 2008

MINUTES

Roll Call

Chairperson Billings had Monica Musaraca call the roll at 10:00, and a quorum was declared. Attendance is reflected below:

Member	Present	Absent	Alt.
Donald Billings, Chair	X		
Larry Clemens	X		
Linda Cocking	X		
Jack Kubota	X		
Barry Newman	X		
Jim Peugh	X		
Charles Richardson	X		
Irene Stallard-Rodriguez	X		
Todd Webster	X		
Gail Welch	X		

Ex-Officios

Scott Tulloch	X		
Yen Tu <i>arrived at 11:00</i>	X		

1. Non-Agenda Public Comment

There was no non-agenda public comment.

2. Approval of Minutes from April 14, 2008

Chairperson Billings called for a motion to approve the minutes. Mr. Newman moved and Ms. Welch seconded, with one abstaining, the minutes were unanimously approved as submitted.

3. Chair Updates

Chairperson Billings asked the Committee to look at their calendars, to consider going dark for the month of August. He then spoke about the Metro/JPA retreat he attended on May 1st in Coronado which he said was a very informative. A concern expressed at the retreat was the potential cost to the Participating Agencies if the Waiver was not granted; they expressed their interest in how this proceeds and want to stay informed. The Metro/JPA desires to have a real working partnership with respect to wastewater issues, and be a part of the process. Chairperson Billings noted that the IROC does attend both Metro/JPA and TAC meetings, as well as Metro/JPA being represented here at the IROC. There are great opportunities to work together.

Scott Tulloch mentioned the interest of the IROC and Metro/JPA being very much aligned, which is why they proposed having Metro/JPA speak to the IROC's Finance Subcommittee. They are very interested in getting wastewater programs that are most cost effective for the rate payers, which is important to the

MINUTES

IROC as well. Mr. Peugh asked if the Metro/JPA could do a presentation to the IROC on how there could be better synergy between the two organizations. Scott will take this to the Committee and follow up.

Chairperson Billings reminded the Committee to look at the Council hearings on Water/Wastewater budget, which Ernie Linares makes available via email. The IROC's role is quite important in regard to rate cases.

4. Staff Updates

➤ Water Department - Alex Ruiz

- Water Budget presentation was given, by Director Barrett, to Council last week and does not foresee any changes between now and the end of the fiscal year.
- Mayor Sanders is proposing final contract negotiation proposals to both Local 127 & Municipal Employees Association groups. Water and Wastewater have put in place some contingency plans to ensure the key and critical facilities will be addressed in the event any job actions may arise.

➤ Metropolitan Wastewater Department – Bob Ferrier

- MWWD Budget presentation was given, by Director Barrett, to Council last week and was approved.
- Completed requests for additional information on the Waiver submittal from EPA, and was electronically submitted to EPA last week, and will eventually be posted to the website.
- ISO 14001 audits concluded last week and went well.

Chairperson Billings asked Mr. Ferrier if it would be possible to have new content of interest that is added to the MWWD website, sent to the IROC members via email. Mr. Ferrier concurred, and will have Ernie Linares send links to the members as availability permits.

In response to the question, Mr. Ferrier added that the latest expected date of response from EPA and the Waiver is most likely the July/Aug timeframe. Conclusion is expected to happen before the end of the current federal fiscal year, which is September 30.

5. Current Biosolids Treatment & Disposal & Future Alternatives

Lori Vereker, Deputy Director, Treatment and Disposal Division, MWWD provided a handout and gave a presentation on Biosolids Disposal. Ms Vereker defined Biosolids as a highly treated, nutrient-rich, organic material derived from the wastewater treatment process, which can be beneficially recycled/re-used in a number of ways. She mentioned the AB939 Bill was passed in 2001 to reduce the

May 12, 2008

MINUTES

volume of solids diverted to landfills by 50%; this landfill portion is not including alternative daily cover, which helps the production of methane and the composting that has to happen in a landfill.

Ms. Vereker touched on issues of competing regulations and growing concerns. She then reviewed the history of biosolids disposal in MWWD for the period of 1987 to date and explained the difference between Class A and Class B biosolids. Ms. Vereker outlined the methods to produce the two classes, to get below the detectable levels for the pathogens. She stated the current practices in MWWD are Class B biosolids. The current disposal efforts are handled through a contract with SD Landfill systems (currently in the 3rd year of a 5-year contract) with a price of \$42 per wet ton (hauling cost); there are also fuel charges which can be added on. She stated that with the current disposal methods, most biosolids go to Alternative Daily Cover at Otay Landfill, land application in Yuma, Arizona and a very small percentage to landfill during rare periods of inclement weather.

Ms. Vereker stated that there is a proactive approach to closely monitor industry trends, meet regularly with vendors for alternative treatments and uses, and look into wastewater treatment processes which reduce sludge production. Mr. Newman asked if it is reduced, would more go to the ocean, and Ms. Vereker responded by stating that in reducing it, bacteriological action would actually be used as food, the bi-products are not solids going to the ocean. She added that this would not be a storage problem, but it would be an expense.

The Class A alternatives are pelletization, composting, energy conversion and biofuels. The current effort plans were outlined, which included FY08: Assessment of a wide variety of alternative disposal/reuse methods; FY09: conduct a thorough BCE on the short list of alternatives and take recommendations to management team with high level implementation plans; and FY10: begin budget, planning, design and implementation of the recommended alternative(s). Mr. Newman asked what the game plan was, and Ms. Vereker said it is to strike a balance between cost and staying ahead of the regulations and any environmental effects

Lastly, Ms. Vereker stated that in the future, MWWD will continue to closely monitor industry trends, follow through on recommendations in BCE report and ensure that we stay ahead of “crisis mode”, while remaining fiscally conservative in approach. The four alternatives being looked at now are 1) slurry carb, which is a pelletized fuel that can be used in cement kilns, treated with a heat process; 2) gasification, which can provide a wide range of products, electricity, fuels, hydrogen and steam and exceeds the 503 regulations (heat process). Mr. Newman questioned the concern of air quality vs. soil amendment in this process, 3) thermal drying & pelletization which is a heat process as well. Ms. Vereker explained that any time there is a heat process, the heat and/or bi-products must

May 12, 2008

MINUTES

be captured, and put back into the system to fuel itself. She also added that with heat processes, there is some danger of explosion because it is a methane bi-product, but due to technology this is not likely; and 4) vitrification which turns biosolids, through very high heat, into black glass beads, which can be used in cement kilns. These alternatives can be very cost effective.

Mr. Webster asked about thermophillic aerobic digestion type of processes. Ms. Vereker stated that this was looked into, but was not included in the shortlist due to the cost and technology being large scale. Mr. Webster asked if in the future, through improvements it can continue to be looked into. Ms. Vereker concurred.

Chairperson Billings offered his opinion by saying this was a very informational and great presentation, and asked about the migration of this, and for a rough estimate of what the costs would look like in the future. Ms. Vereker said that due to the contractual timeline, we are limited until then. With all things considered, the philosophy is diversification; it can be phased in over time, so the cost is not incurred at one time. Currently, the unit cost per wet ton is about \$130, so the projected range would be about \$150 - \$210 per wet ton. Depending on the phased in alternative, it could go up substantially. Being prepared is very important.

Ms. Vereker offered to keep IROC periodically informed. Mr. Newman asked if Ms. Vereker could keep current with the Kern County litigation, she concurred.

6. Ovation (Distributed Control Systems (DCS)) Upgrade at MBC

Lori Vereker provided a memo to IROC dated May 12, 2008 from MWWD, Subject: Distributed Control System Upgrade at the MBC. She educated the Committee about the current systems, which are highly automated using a control system that allows the operators to view and operate the plants from the control room; however, adjustments must be made manually by the operators. Ms. Vereker described the system at MBC which was installed and contracted by Westinghouse, currently Emerson, in 1994 and is close to full capacity due to the 10-12 year life cycle. The system has a HVAC system also installed under a separate contract, and is in need of replacement. The MBC DCS system will need to be upgraded to the Emerson Ovation system, which is currently in use at the South Bay Water Reclamation Plant, and is able to accommodate all of the existing loads and new projects. The upgrade will have to be provided on a sole source basis with Emerson for a total contract price of about \$6M, and the additional costs for the City's Engineering Department to support the project are estimated at \$250K which are included in the 10-year financing plan in the CIP for FY08 and FY09. Ms. Vereker noted that it will be going to Council soon.

Mr. Richardson asked how long the upgrade will extend the life of the system and Ms. Vereker answered that it should be expended by about 10-12 years, which is

May 12, 2008

MINUTES

much better than replacing the entire system, since all of the hardware is being replaced, it is very beneficial.

Chairperson Billings asked if there is a cost savings, Ms. Vereker stated yes, this will impact MBC's large future projects. Having the systems automated reduces the number of staff needed. Ernie Linares added that this project is not in need of additional funding, but because of the size of the project, and the fact that is going to Council, it would be indicated that it was brought to IROC for the support of the concept, as done with past projects.

Several concerns were raised by IROC members about Sole Sourcing with this project. Ms. Vereker explained that currently, there is an ongoing maintenance contract with Emerson for all of the DCS systems, which is expensive. Initially, this was put out to Bid and Emerson was the only responsive bidder. Ms. Vereker added that with such a large complex system in place by Emerson, it seems other bidders feel they are not competitive. She added that the City is getting the best price possible with Emerson. If this system were to be replaced rather than upgraded, then it would be put out for bid, where more bidders would be able to compete, but the system would be grossly expensive. Ms. Welch questioned the language in the contract that would hold Emerson to performance standards. Ms. Vereker stated there is a lot of contractual language in place, holding Emerson to a very high standard, while ensuring all specifications are met. Ms. Welch also asked about their contributions and commitments to reduce costs and Ms. Vereker assured that the contract was very detailed and also reviewed, and the language narrowed down to ensure that the City is benefited.

Mr. Newman asked about the process of the notation of IROC's support, to certain items going to Council. Mr. Linares stated that there is a routing sheet which accompanies every action, which indicates the item came before IROC and was voted to support the item. Mr. Zeleny added that it is at the discretion of the Committee to take action approval, not take action or approve with qualifications, etc. Mr. Ferrier pointed out that with Metro items such as this; they have been to the Technical Advisory Committee, approved and moved toward the full Metro Commission as well. Typically, when sent to Council, it is indicated on the request that it was approved. It can be done for IROC as well.

Chairperson Billings asked if future Agendas can be marked for information or for action items and relevant background information be provided in advance, as well as sent to the relevant subcommittee first, with recommendation to go before the IROC. Mr. Linares concurred.

May 12, 2008

MINUTES

7. **Proposed pass-through water rate increases as a result of MWD/CWA water cost increases**

Rod Greek, Deputy Director, Business Ops, supplied a handout and gave a brief presentation in regard to the Water Rate Pass Through for January 1, 2009. He talked about the rate structure and how that is applied, as well as the timeline on how it will move forward for approval. He touched on the MWD Rate Comparison pointing out the increase in the Tier 1 Supply Rate, which has not been increased for several years, and the new Water Supply Surcharge for 2009. Mr. Greek talked about the reasons for the increases and the proposed SDCWA Increases which will affect all agencies. He stated the CWA Pass Through rate increase applies to fixed and commodity charges. The City buys up to 90% of water from CWA and the increase is NOT included in the FY rate increase. Mr. Greek pointed out facts such as the water purchase costs will increase; pass through is a wash due to revenue increase = water purchase increase; conservation reduces revenue; and conservation reduces water purchase costs. He went over the CWA Rate Components and a matrix for the proposed base fee increase of FY08's pass through and commodity fee increase of FY08 adjustments. He stated that as we move forward, it will go to the public with a 218 Notice to rate payers, there will be a 45 day notice which will include a protest form and typical user cost information, with contact information. He then went over the Rate Adjustment timeline beginning with MWD hearing in March 08 through City Council meeting to discuss and vote on "pass through" rate increases in October 08.

Alex Ruiz added there is an expectation to have the CWA at the June meeting to do a presentation. He also added the intention to come back to the July meeting with the final recommendation as to the impact to the rate payers. Ms. Tu assured that CWA are very familiar with the pass through and rate increases, CWA looks at this very carefully and makes sure that they have their input in terms of capital increase. She added that they work very hard to have a rate stabilization program so the increases are not always dramatic.

Alejandra Gavaldon, Mayor's Policy Advisor on Water/Wastewater Issues, spoke. Ms. Gavaldon mentioned that they do plan on coming to the IROC Committee as well as the relevant subcommittees until the first hearing of the 218 Notice. She then stated she wanted to recommend and plan for the attendance of SDCWA at an upcoming IROC meeting to present their process. Mr. Newman pointed out his concerns with the continual application of grass sod around the county, in light of the water supply.

8. **Flouridation Funding Offer from *First Five Commission***

Alex Ruiz briefed the Committee on the status of an offer, from the First 5 Commission, of funding received to provide fluoridation throughout the City of San Diego. It has been identified as one of the key health benefits that can be

May 12, 2008

MINUTES

provided to young children at a very low cost. They dedicated funding to the City, the resources necessary (\$3.9M) to introduce fluoridated water at all 3 of our treatment plants, which includes the operation and maintenance expenditures for the first 2 years of operation. This process will be going forward to Council on June 9 with a request of Council to authorize the City to begin negotiations with First 5. Mr. Ruiz also went over the background and process of fluoridating water. He noted that an interactive web based application has been developed that can be found on the Water Department's website, where by entering a zip code it will tell the expected concentration of fluoride at the particular area, as a result of the MWD introduction of fluoride. Mr. Ruiz added that it is expected to go to the optimal level of fluoridation (0.8mg p/l) over the next 2 years. After the Council vote, negotiations, implantation plan developed and construction plan developed, plans will be submitted to the Department of Public Health for their approval. Then it will come back to IROC and the City Council for the contract approval process to make this happen.

9. Status of water bill insert as a result of the Shames lawsuit

Alejandra Gavaldon gave a brief presentation of the status of the water bill inserts. She provided handouts including, proposed UCAN bill inserts which are under review, and a copy of the Notice of Public Hearing from last October which was an overview of the Shames settlement that points out the class action lawsuit affecting sewer rates for the City of San Diego. This lawsuit alleged that the City had overcharged Single Family Residential customers while undercharging other customers up until October 2004. Through the court approved settlement, the City is required to reimburse these customers a total of \$40M (less \$5M in attorney fees) over the next four years. To satisfy the terms of the agreement, the City issued the Prop. 218 Notice which increases sewer rates and then provides a rebate to those customers who were not impacted as well as an additional rebate of \$3.25 a month. She noted that none of this revenue is going to the City of San Diego, it is going back to the impacted customers. She added that this settlement also allows UCAN to place solicitation inserts in the sewer bills up to 3x a calendar year for 5 years. Ms. Gavaldon mentioned that the purpose of the inserts is to allow UCAN to raise funds to be used to higher experts to review and evaluate the City's future sewer and water rate setting activities that will come in FY10 and FY11. The costs of the inserts will be charged to UCAN, whereas the postage costs will belong to the City of San Diego. She stated that the Mayor's office firmly believes that the content of the inserts must be factual and accurate without misrepresenting the City or misleading customers. The City absolutely wants to fulfill the settlement agreement requirements making sure no additional costs are incurred. Due to bi-monthly billing we now have a limited timeframe to work under, but want to move forward as quickly as possible to allow UCAN to have the 3 inserts in the remainder of the calendar year.

MINUTES

Ms. Gavaldon stated target date for taking this to Council either June 10 or June 23 or 24, 2008. It will be noted in the report that it will be going to the IROC Committee. If possible to docket on June 23 or 24, it would allow the full POE&CS Subcommittee and the full IROC Committee to have comments.

Chairperson Billings asked if the settlement requires this to be rushed. Ms. Gavaldon said that it does state that it must not be unreasonably withheld, and the preferred approach is to go through the complete process but be sensitive. Mr. Zeleny stated that the time constrain is the settlement agreement which allows them to put the inserts in at least 3x a year. Chairperson said that in his opinion, he feels having rate payers pay for the inserts, that allows an organization to solicit funds for other than water, is unacceptable, and asked for the Committee members comments, Mr. Newman agreed and would like IROC to have full input in this process. Chairperson asked if there are any objections of going through the normal process on this. Otherwise, would like to take this on the regular course of going to the POE&CS Subcommittee as well as IROC's meeting. No members objected. Mr. Zeleny added that City Council will have input as well, and may have other questions, so this would be the best route to take.

10. Committee Updates

a. Finance

Mr. Richardson went over the April 14, 2008 meeting minutes which were attached in the packet. He mentioned a presentation from the Metro/JPA's Finance Committee which was helpful, also had an overview of the budgets for Water and Wastewater proposed to City Council for approval as well as follow up discussions on DRES which will continue at subsequent meetings. Mr. Richardson said that they want to look at independent performance audit issues, they didn't feel it was appropriate for IROC to add audit requirements where they did not exist at the level of a financial audit for either the Water or Wastewater presently they're not separate audits, and they are part of the overall umbrella audit of the City. The Subcommittee agreed that they would look carefully at any comments that came out of the City audit that related to Wastewater and Water.

b. Environmental & Technical

Mr. Peugh referred to his meeting minutes of May 5, 2008 which were distributed. He touched on having a presentation from HDR on the Performance Audit. They want to get one person from each of the Subcommittees and meet with HDR to discuss the Performance Audit. He said Marsi Steirer gave a presentation on IPR, and discussion on the requirement for an Independent Advisory Panel to assess the program, where funding is not in place at this time. He said they discussed the presentation

May 12, 2008

MINUTES

from the Orange County and the value of going to visit the LA Hyperion Waterplant.

c. Public Outreach, Education & Customer Service

Mr. Clemens noted that they did not meet last month.

11. Proposed Agenda Items for next IROC meeting of 4/14/08

No comments.

12. IROC Members Comments

Mr. Tulloch mentioned that the Performance Audit is one of the subjects of discussion at the Strategic Planning session. He offered to help out in this process. Chairperson Billings thought this would be a great opportunity.

Adjournment of IROC

At 12:00 Chairperson Billings called for a motion to adjourn, Mr. Newman moved and Ms. Welch seconded, unanimously the meeting was adjourned.

Next Meeting: June 9, 2008, 10:00 a.m. – 12:00 noon.

Location: Metropolitan Wastewater Department, Auditorium, 9192 Topaz Way, San Diego, CA 92123 – (858)292-6300